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ABSTRACT

These teacher developed case studies taken from the business world are presented to help secondary students develop an understanding of economics and of the decision-making process. The studies describe real business situations. All historical and current facts are provided for each of the seven case studies. In the first case, students debate whether the lobby for a shoe corporation should be in favor or against shoe import quotas from Taiwan and Korea. In the second group of studies, students acting as Field Supervisors of Collections for the Public Service Company must make some tough decisions on what customers will be shut off. In the third case study, students must decide upon the most profitable layout for a self-service, neighborhood discount department store. Students must decide on a sales program for a company in the data processing industry in the fourth case study. The fifth case study involves students in reading the Sheraton Corporation's case against a current bill on the minimum wage before the House of Representatives. Students acting as members of the House must decide how they would vote. The last two case studies involve students in making decision concerning advertising for the Howard Johnson restaurant chain and implementing new ideas for the Filene retail department store. (Author/RM)

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We wish to thank the members of FEI, not only for their financial support of this important venture in cooperative business education, but for their personal commitment to a more positive relationship between business and the society it serves.

In particular, the members of the FEI Committee on Government and Business Relations arranged for the companies used as case subjects by the teachers. Without this relationship, these materials, which are meant for classroom use by young people, would not have been developed. Thanks also to the specific companies for their openness and concern for the success of this project.

Except for one case, all company names are real. In several cases, personal names have been disguised. These cases should be regarded as illustrations for classroom discussions rather than as solutions to specific problems.

The Editors.

INTRODUCTION

Since 1961, the Business History and Economic Life Program has been training teachers and developing case materials to augment and strengthen economic offerings currently available in the secondary schools. Business touches all our lives. The history and anecdotes surrounding it provide a colorful approach to the reasons for learning economics in the first place. They can be adapted to arouse and sustain interest in the many facets of economic business life--both public and private.

This collection of cases has been prepared by classroom teachers with secondary school students in mind. Such a product is a reflection of the talent, experience, and sensitivity that exists among the practitioners. As one uses the cases it should be noted that the intent is to develop economic understanding rather than the detailed perspective of a business decision-maker.

Real economic situations, within the context of a regular secondary school social studies curriculum, can lay the groundwork for a realistic understanding of economic problems, for both the terminal students and for those who will later take more advanced analysis courses.

Business cases are particularly effective for introducing economics in the classroom because they center on real people in specific situations. They provide abundant material for analysing and understanding microeconomic relationships--e.g. business organization, competitive mechanisms, economic motivation and the like.

In addition, the information in a case extends beyond the single firm, enabling the teacher to move into a number of areas. Furthermore, by providing concrete examples of business reacting to changing economic conditions, the cases are able to give far more meaning to the student than abstract entities.

The cases in this casebook are meant to provoke discussion amongst young people in order that they may begin to investigate what goes into the making of a decision. For more detailed information on how to utilize cases, case method, and the making of one's own cases, please consult Paul H. Tedesco, Teaching With Case Studies (Boston: The Federal Reserve Bank, 1974). Copies of this publication can be obtained free by writing the Public Information Center, Federal Reserve Bank of Boston, Boston, MA 02106.

Other materials that might be of assistance are contained in a quarterly publication of the BHelp project, The BHelp Newsletter. In particular, Paul H. Tedesco, "A Bibliography of Materials on the Case Method for Teachers" and the "BHelp Case Bibliography" in this publication (Vol. IX, No. 4--Fall 1976) should be especially useful.

A CASE OF SHOES

Morton's Shoe Stores, Inc. is a Massachusetts-based corporation involved in both the production and the sale of footwear. The company began in 1920 as a small line of self-service stores, but has since branched out into three types of operations. These are the retail outlets, known as Tagway Stores; the leased discount departments in larger stores; and the Footwear Merchandising Service, a wholesale operation serving other shoe retailers. Recently, Morton's has acquired subsidiary companies which specialize in manufacturing . The Laconia Shoe Company, Inc. produces footwear for men. The Hampshire Manufacturing Corporation makes lined vinyl boots and a recreational line of plastic inflatable mattresses, pools, and novelties. Morton's Shoe Stores, Inc. is both a producer and seller in its present form.

The focus of Morton's sales operations is the low or popularly priced shoe, even though its subsidiaries produce expensive shoes. As a result, Morton's buys only seven per cent of the combined output of Hampshire and Laconia. In seeking inexpensive lines, Morton's obtains more than half of its purchases from overseas markets. (Graph 1)

The large proportion of imports in Morton's purchases is typical of many shoe suppliers and retailers in this country. This severe competition from overseas producers, particularly Taiwan and Korea (Graph 2), is possible because of the availability of cheap labor in those countries. At the same time, there is evidence of a serious decline in the American shoe industry.

In fact, there are those who believe that the domestic industry is dying out. The factors which support this hypothesis include the large number of empty shoe factories throughout New England, the relatively low degree of mechanization in the production of shoes, and the decreasing availability of labor in some regions.

This case was prepared by Sisters Marie R. Chesnel and Judith Dozois, Ursuline Academy (Dedham, Massachusetts), and Peter E. Fuchs and Mary Ann Leonard, Needham (Massachusetts) High School under the supervision of the 1977 NU/FEI/BHELP Summer Social Studies Workshop faculty as a basis for classroom discussion rather than to illustrate either effective or ineffective handling of a particular situation.

On the other hand, it is possible to argue that while the industry has merely shifted its geographical to the South and Midwest, overseas competition constitutes the major cause of the present diffuculty.

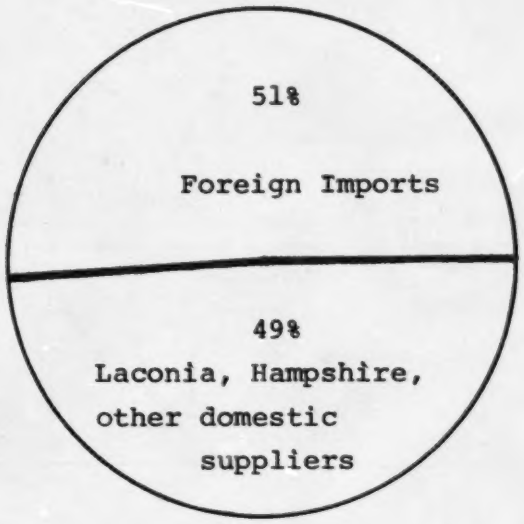
It is from this standpoint that members of the industry have requested governmental action in the form of tariffs to restrict the importation of shoes. Although the government has rejected the possibility of tariffs, it is willing to consider the establishment of import quotas for Taiwan and Korea in the hope that these quotas will encourage the purchase of domestic shoe products. These quotas would cover a four-year period beginning in fiscal 1977-1978 and would significantly reduce the number of pairs of non-rubber footwear to be imported from Taiwan and Korea. (Graph3)

Now that the question of quotas is under government consideration, it has become a major issue to companies like Morton's. Various groups are lobbying in Washington to influence the final executive decision. Morton's must decide which lobby to support.

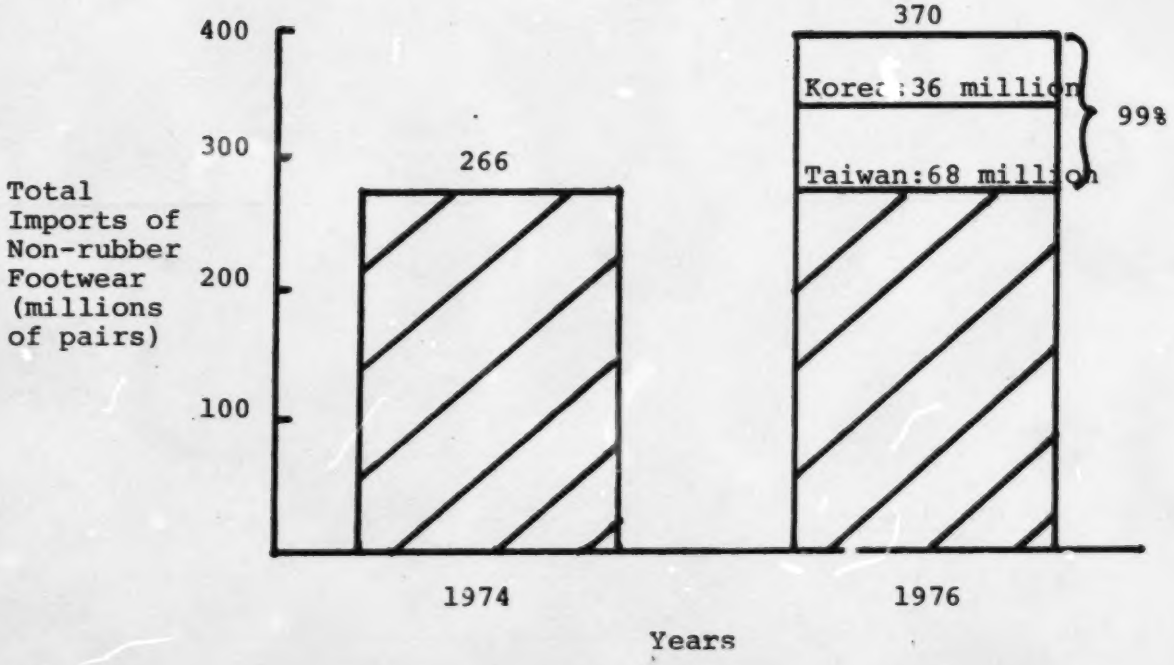
As a profit-making organization, Morton's should be concerned with (1) the profits of its manufacturing divisions, (2) the profits of its sales division, and (3) its overall profits. (Graphs 4 and 5). As a part of the American economic structure, Morton's must also consider (1) the needs of the consumer, (2) the problems of unemployment, and (3) the question of inflationary pressures. As a citizen of the world, Morton's must also evaluate the advantages and disadvantages of free trade for other countries as well as the United States.

Should Morton's lobby in favor of or against shoe import quotas for Taiwan and Korea? Are there other options? Identify the pros and cons of such a decision.

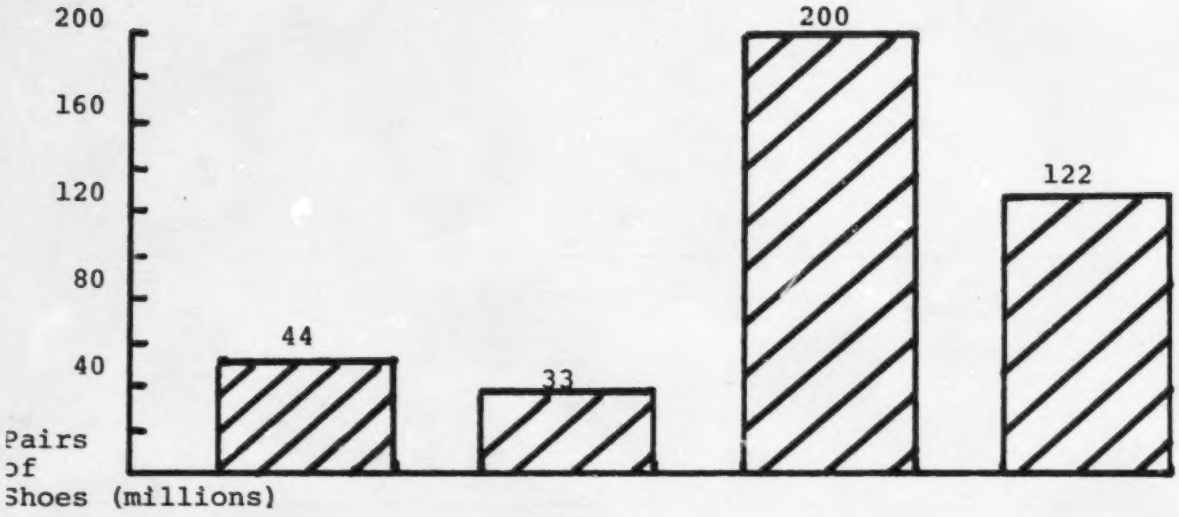
GRAPH 1. Sources of Footwear Supplies
Morton's Shoe Stores
(Fiscal 1967)



GRAPH 2. Increase of United States Imports
of Non-rubber Footwear from Taiwan
and Korea in relation to Total
Increase from 1974 to 1976



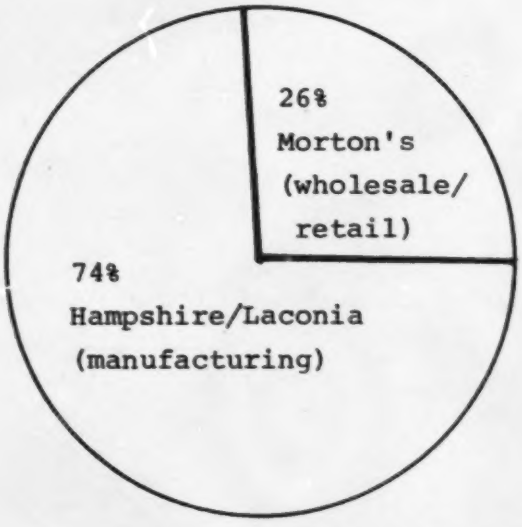
GRAPH 3. Comparison of Total Imports from Republic of Korea and Republic of China (Taiwan) According to Proposed Quota Schedule (1975-1976 and 1977-1978)



GRAPH 4. Percentage of Net Sales Morton's Shoes Stores (Fiscal 1976)

Net Sales: $91,762,891

Graph 5. Percentage of Net Income Morton's Shoe Stores (Fiscal 1976)



Net Income: $2,402,566

Teacher's notes.

The following terms are important to the understanding of this case.

corporation	subsidiary	mechanization
production	markets	labor unions
retail	cheap labor	tariff
leased departments	hypothesis	quota
wholesale	imports	fiscal

domestic	executive decision
lobby	consumer
profit	inflation
net sales	free trade
net income	

1. The leased discount departments are operated entirely by Morton's, but are located in space rented from large chain stores. The Footwear Merchandising provides not only shoes but also advise to self-service retailers.

2. One option considered by Morton's was to support lobbyists on both sides of the quota question.

3. Domestic workers average $5.00 an hour in contrast to 35¢-40¢ an hour in some countries.

4. It seems that from the latest of the fifteen shoe factories to close in Lowell, Mass., very few workers were willing to transfer to the remaining four or five factories. On the other hand, certain sections of the South and Midwest boast of a very solid labor force for the production of shoes.

5. If the domestic shoe industry is to be helped by the import quotas on low-priced shoes, the stimulation will probably occur at the level of low or medium-priced shoes. The price of Laconia's and Hampshire's products is way above that level.

6. What elements go into making labor "cheap"?

7. Fewer imports would mean an increase in competition among U.S. retailers and the need for new suppliers. Yugoslavia, India, Rumania, and Red China are possibilities, but it would take several years and large amounts of new capital to establish the shoe industry in those countries.
   In the short run, the corporation might be forced to establish large inventories to insure that they do not run short. This would mean fewer inventory turns, the tying up of capital over longer periods of time, and the consequent difficulty in meeting payments to suppliers.

8. There is proportionally a larger markup on imported shoes than on the higher-priced Laconia and Hampshire products. But the total markup on the latter adds up to many more dollars and cents than with the imported shoes.

9. Perhaps the greatest impact of the quotas forecast by Morton's is that the import shoe industry would become a seller's market. An increase in the price of shoes would arise as foreign factories tried to equalize their total sales volume with pre-quota sales. Morton's forecasts that within six months of the establishment of quotas, there would be a 20% hike in the price of shoes. Tariffs, on the other hand, might not have the same inflationary effects, depending on how steep the tariffs were. A 10¢ tariff on a $4.00 shoe could easily be absorbed. On the other hand, Morton's predicts that, with the quotas, the $5.00 ladies' shoe would disappear completely from the market.

10. In mid-July of 1977, Robert S. Strauss, United States special representative for trade negotiations, signed Orderly Marketing Agreements with the Republics of China and Korea, establishing import quotas.

"DEAR CUSTOMER: YOUR PAYMENT HAS NOT BEEN RECEIVED..."

Commonwealth Gas Company was incorporated on May 13, 1851, as Worcester Gas Light Company. Subsequent acquisitions were made to serve the areas of Framingham, Marlboro, Hudson, Milford, Dedham and Hyde Park. In 1971 Cambridge Gas Light Company merged with Worcester Gas Light and the corporate name was changed to Commonwealth Gas Company. The company is engaged in the distribution and sale of natural gas at retail to approximately 140,000 customers in a 666 square mile area serving 40 communities in eastern and central Massachusetts. Commonwealth Gas is a wholly-owned subsidiary of the New England Gas and Electric Association.

The company's natural gas is supplied under long-term contracts with two pipeline companies--Algonquin Gas Transmission Company (34.5 per cent owned by NEGEA) and Tennessee Gas Pipeline Company, a division of Tenneco, Inc. The two pipeline companies are independent of each other, but are interconnected at several points in Massachusetts, Connecticut, and New Jersey for emergency supply of gas between the companies. Prior to November 1974, Commonwealth Gas had not only experienced curtailments from Algonquin, but, recently, it has suffered limited curtailments from Tennessee Gas. The effects of these curtailments has been to increase the company's utilization of liquid natural gas (LNG) facilities and in-ground storage of natural gas to meet firm sendout requirements which exceed pipeline supply during the heating season.

Commonwealth Gas has been advised by its suppliers that the reduced curtailments will continue, but the company believes that its present sources of gas are adequate to meet existing load and allow for controlled growth in sales of firm gas, at least through the 1978-1979 heating season.

The company asked the Commonwealth of Massachusetts' Department of Public Utilities, a governmental regulatory commission,

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This case was prepared by Kevin Lewis and William Mullen both of the Foxborough (Massachusetts) High School, and Duane Corriveau and Scott Ljungberg, both of the Wachusett Regional High School, Holden, Massachusetts, under the supervision of the 1977 NU/FEI/BHELP Summer Social Studies Workshop faculty as a basis for class discussion rather than to illustrate either effective or ineffective handling of a particular situation.

permission for rate increases totalling 11.3 million dollars in 1975 and received permission to raise rates by 7.7 million dollars. The DPU is closely involved in any growth that Commonwealth Gas attempts.

Commonwealth Gas has other worries besides its gas supply. While profits have substantially increased during the severe winter of 1976-1977, the weather brought on a continuous growth of unpaid gas bills. In 1976, the company was forced to charge-off $940, 000 in unpaid accounts and projects an estimated $1,300,000 loss in 1977.

Although this loss represents only 1.3 per cent of gross sales, it accounts for a $7.40 per year cost to each used who pays their bill. This could contribute to rate increases in the future, if this deficit were to continue. In 1972, the company lost its right to ask for a security deposit whenever gas was installed in a high-risk area. Although only 30 per cent of new customers were charged this deposit, the DPU judged it discriminatory and, therefore, illegal because only certain groups of people were charged the fee. With approximately 25 per cent of all customers in arrears each month currently, the company has found itself forced to take increased steps to terminate gas supply to customers, a figure that is now approximately 4.5 per cent.

With a loss of $87,000 in unpaid accounts per month, the company has become more and more concerned. As Field Supervisor of Collections, you must make some tough decisions on what customers will be shut-off and then direct your Field Collector to terminate service. A series of steps must be followed in this process to make termination legal. (See Appendix 1 and 2) In the following hypothetical cases these procedures have been rigidly adhered to before the Field Collector appears at the door.

What position would you take in the following cases?

BEST COPY AVAILABLE

CASE #1

David Jason and Donald Simns dropped out of high school in their senior years. Don obtained employment as a bag boy in a local supermarket, while Dave was hired by a gas station as a full-time helper. As close friends, they decided to room together and established that they could afford $175 rent per month. They encountered some difficulties in finding suitable apartment quarters because they were teenagers. The only available apartment in their price range could be had only if they paid a security deposit and utilities were extra. They signed a year's lease and moved in on October 1, 1976.

Everything went well for two months and then things began to get difficult. In mid-December, Dave was laid-off and could not find another job. Don's salary was not enough to cover all their expenses. They were unable to pay the utilities bills. Late payment notices and threatening letters were received. In February, 1977, the boys received a letter from the gas company that they were going to shut-off service. It was a very severe winter, but the boys did not have the money.

CASE #2

Charles C. Crane is an attorney who lives in a $100,000 home in an exclusive neighborhood with a swimming pool and three automobiles. In the last three years, Crane has been late in paying his gas bill seven times. Usually, after a notice has been sent requesting immediate payment, he has paid the bill. This time, however, Crane received a 72-hour notice to pay to which he replied that he would pay the bill in a week.

CASE #3

Raymond George is a highly-decorated wounded Viet Nam veteran with a partial disability. After military service, George returned to his home in Roxbury, Massachusetts, and completed undergraduate and graduate degrees in business administration. George is currently employed by a Boston bank at $14,800 per year. Mrs. George is also employed with a salary of $13,700 per year.

In February, 1977, George's account with the gas company was three months in arrears ($286.00). Two notices had been sent and a personal telephone call made to George. He had agreed to pay $50.00 per month on his regular bill until his account was paid. The March billing showed that George

had paid $50.00, but not the month's regular bill. Another notice was sent followed by an acknowledged registered letter. A telephone call revealed that there was apparently a serious illness in George's family, but that he wanted to clear up the unpaid bill. George suggested that the Field Collector come to his house the following week after he received his salary check and he would pay the month's bill plus $125.00 on the unpaid bill.

When the Field Collector arrived at the George house, he was refused entrance. Notice was sent the next day that unless the bill was paid in five days, the gas would be shut-off. Mrs. George called the company and told them that her husband was borrowing money to pay the bill in full on the next billing.

In an effort to insure collection and maintain good public relations, the Field Collector approached the personnel department of the bank which employed George. The Field Collector was told that if the company pressed this complaint against George, they, the bank, would be forced to terminate George's employment with them.

APPENDIX 1

According to the Massachusetts Department of Public Utilities, the following regulations must be followed by gas companies in the Commonwealth in regard to the termination of service due to non-payment of a bill.

(1) A bill has to be 48 days old before service can be terminated.

(2) A disconnection notice must be sent giving the customer 14 days to pay.

(3) After these measures have been taken and there is still no payment, the customer is given a 72-hour notice of payment. At this point, the customer must explain to the gas company his intent to pay the bill and how the bill is going to be paid.

(4) If the gas company is not satisfied with the customer's response, a decision is made on termination of service. The customer's credit history with the company is vital to this decision.

(5) A field collector goes to the customer's residence with the authority to disconnect the gas meter.

(6) If the collector is refused admittance by the customer, the gas company can proceed to get a warrant from a district court to force the customer to let the collector into the house.

(7) A constable, who is an officer of the court, hand delivers the warrant to the customer which informs the individual that the collector has a right to enter the premises to shut-off the meter.

(8) If a customer is disputing his/her bill, gas cannot be terminated until resolution of the conflict.

(9) If a customer is disputing a bill, he/she is entitled to a hearing before the Department of Public Utilities.

(10) No person over the age of 65 can have his/her service terminated unles the DPU has given written consent.

(11) If a customer is suffering from a serious illness certified by a doctor, gas cannot be terminated.

(12) Gas cannot be terminated on a day before a holiday.

(13) Gas cannot be terminated on a Friday.

(14) Gas can only be terminated between 8:30 am and 4:00 pm.

APPENDIX 2

Credit Rating System of Commonwealth Gas Company

A Rating	Customer always pays bill on time
B Rating	Customer pays bill, but not always on time
C Rating	Customer regularly does not pay bill on time

Teacher's Note

I. Suggested Use of Case: business law, consumer economics, minority studies, US History, sociology

II. Educational Objectives:

Upon completion, the student should be able to:

a. master the following vocabulary terms

curtailment	monopoly
charge-off	regulatory commission
arrears	subsidiary
security deposit	

b. understand the steps necessary in shutting-off service

c. distinguish between the advantages and disadvantages of a regulated industry

d. recognize the social, economic, and legal factors involved

LAYOUT: A PATH TO PROFITS?

The Problem

Beginning in the 1950's a new kind of department store emerged in the United States. This new store became known as the self-service, neighborhood discount department store. This store aimed at providing consumers with a wider variety of goods at a lower price than the traditional department store. Today, this discount department store has surpassed the traditional department store in the distribution of general merchandise to the consuming public.

A prime example of the rising popularity of such discount department stores is the growth of the Zayre Corporation. In 1956 two brothers, Max and Morris Feldberg, opened the first Zayre discount department stores in Hyannis and Roslindale, Massachusetts. The sales realized from these stores in their first year of operation were several million dollars. In just twenty years, the number of Zayre stores grew to 256. These stores are located in 26 states from the Atlantic seaboard to the Mississippi River and Maine to Florida. Net sales recorded by the Zayre Corporation for the 52-week period ending January 29, 1977 reached an all-time high of $1,160,572,000.

Despite a steady increase in sales over the years, Zayre Corporation began in the early seventies to examine its rapid horizontal growth, growth due to the opening of more new stores. They determined that while sales had increased each year, profits had not increased correspondingly. Perhaps, the corporation reasoned, there was another way to earn more profits without continually opening new stores.

So, Zayre began looking for a new direction that would lead to a continued and more rapid increase in earnings for the company. Company operations were studied and the findings indicated that Zayre should, for the time being at least, halt its trend of large scale expansion. The company decided to concentrate on its 256

This case was prepared by Charles Gareau and Nicholas Leacu of the Grafton (Massachusetts) Public Schools and Chris Geoghegan and Thomas Morris of the Walpole (Massachusetts) Public Schools under the supervision of the 1977 NU/FEI/BHELP Summer Social Studies Workshop faculty as a basis for class discussion rather than to illustrate either effective or ineffective handling of a particular situation.

stores and find a way to make them each more productive and profitable. As a result, Zayre adopted the philosophy that they would work for "growth without expansion".

How could Zayre reach this ambitious goal? The corporation decided that more vigorous merchandising and sales promotion were necessary. All merchandise lines were reviewed in relation to customer wants and needs as well as their profit potential. This potential could be determined through volume of sales and/or profit margin. The decision to emphasize the profitability of certain lines and de-emphasize others is known as "merchandise mix".

Zayre undertook a large-scale study of the layout of their store's departments to make this improved mix. The goals were to standardize departments throughout their chain and to improve the placement of departments surrounding major traffic aisles. These goals evolved into a campaign which became known as ZAYRE 75.

ZAYRE 75, now ZAYRE 77, is part of a continuing effort to increase the profitability of existing stores. The layout of departments within the store plays a major role in this effort. However, deciding upon the most profitable layout of departments is not easy task.

Student Activity:

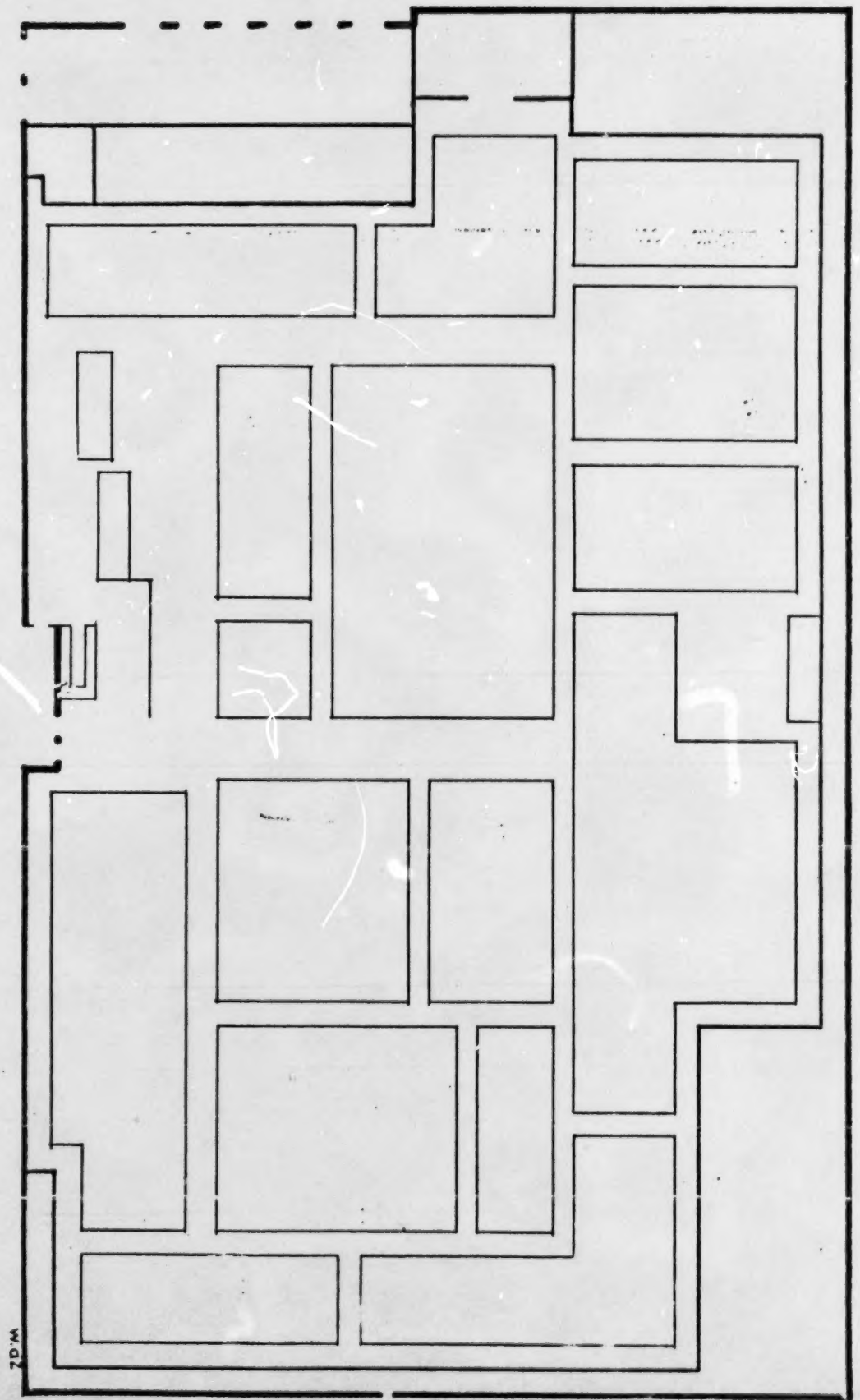
You have a Key and Layout #1. Using your own judgment, layout a Zayre store, matching the department keys to your positioning on the layout sheet. Keep in mind the idea of merchandise mix. The store that you are working on caters to a $12,000-$20,000 annual income bracket. After you have finished your layout, answer the following questions:

1. *In your opinion, what are the money-making departments in a ZAYRE store?*

2. *What factors make a department a money-maker?*

3. *Where have you put the money-making departments in your store layout? Why?*

Layout #1



KEY

1. MENS
2. BOYS
3. GIRLS
4. INFANTS
5. SHOES
6. FABRICS
7. DOMESTICS
8. SIGHT/SOUND
   RECORDS/CAMERA
9. TOYS
10. SPORTS
11. HARDWARE
12. AUTO
13. SPORTSWEAR (LADIES)
14. HSY, LING, CORSETRY
15. ACCESSORIES - HANDBAGS
16. HOMEWARES
17. STATIONERY - BOOKS
18. DRUGS, COSMETICS, CANDY
19. JEWELRY
20. SNACKS (LEASED)

Now examine Table I: Percentage of Sales Contribution and Gross Profit by Departments. Using the information supplied in the table, re-evaluate your store layout. On a blank Layout #1 lay out a Zayre store making changes which you feel would generate more profit based on your analysis of Table I. After you have finished your second layout sheet, answer the following questions:

1. *What changes did you make in your layout? Why?*

2. *Where did you place the departments which have a high percentage of sales contributions? Why?*

3. *How did you use the statistical information in Table I in making your changes?*

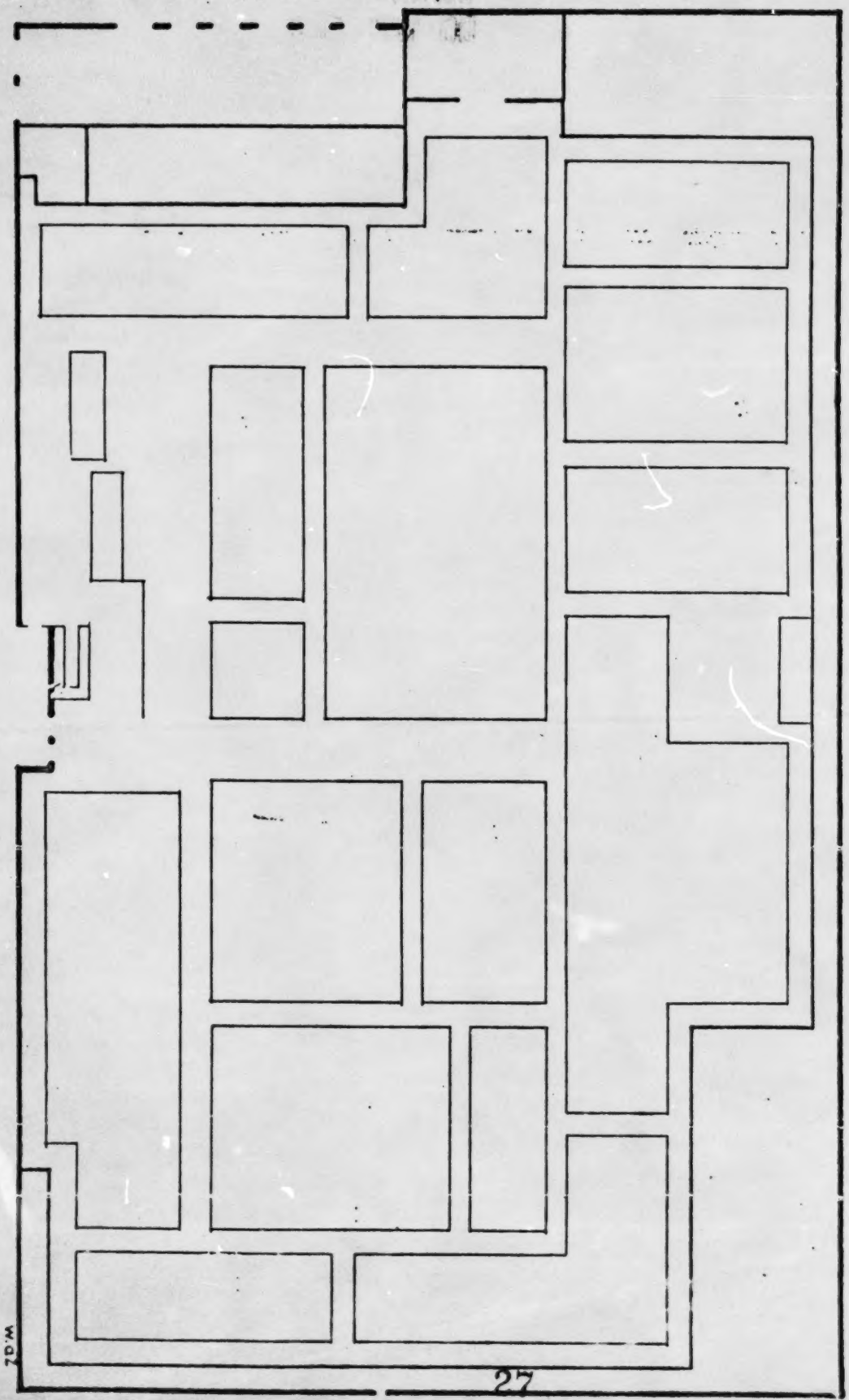
TABLE #1

Figures used are for illustrative purposes only and are not necessarily representative of actual performance.

		% OF SALES CONTRIBUTION	GROSS PROFIT % (*)
1.	MENS	7	35
2.	BOYS	4	37
3.	GIRLS	5	38
4.	INFANTS	3	33
5.	SHOES	4	40
6.	FABRICS	2	30
7.	DOMESTICS	7	32
8.	SIGHT/SOUND RECORDS/CAMERA	6	20
9.	TOYS	7	29
10.	SPORTS	4	28
11.	HARDWARE	5	30
12.	AUTO	5	29
13.	SPORTSWEAR (LADIES)	10	34
14.	HSY, LING, CORSETRY	3	37
15.	ACCESSORIES - HANDBAGS	1	36
16.	HOMEWARES	12	30
17.	STATIONERY - BOOKS	4	32
18.	DRUGS, COSMETICS, CANDY	9	25
19.	JEWELRY	1	33
20.	SNACKS (LEASED)	1	-
		100%	

(*) = Does not include any store operating or corporate overhead expenses.

Layout #1



Zayre's Rationale of Store Layout:

Zayre's management team decided to examine three main factors in trying to increase profits. These factors were (1) location of departments, (2) types of products sold, and (3) the reasons why consumers purchase products. Intensive market research was required and the process you just completed was an example of this type of research.

The management team had known for a long time that certain physical areas in the store produced more sales than others. All areas were labeled using a point system based on sales produced (50 points was high, 10 points low). Those areas near the entrance and exit were found to be 50 pointers and those areas to the back of the store were 10 pointers. The problem became one of matching the departments with high points with those of low point areas to arrive at the best possible merchandise mix.

An example of how Zayre solved this problem was how they balanced Women's Sportswear and Records. Women's Sportswear produced a good profit when that department was placed in the front of the store where female customers would pass as they entered the store. Records did not make a great profit because of the small mark-up, but they did get people to come into the store. So Records was placed in the rear of the store so that people would pass other departments on their way to look at records.

Getting the right merchandise mix involves the right balance of high turnover/low mark-up and low turnover/high mark-up items by placing them in the best possible locations. As a result of its market research, Zayre found that major appliances (low turnover/high mark-up items) did not produce enough profit for the space they used so they were eliminated from Zayre stores. Children's Apparel, on the other hand, consisted of high turnover/high mark-up items and so was expanded as a department.

The last part of establishing a good merchandising mix was to decide why a consumer purchases a certain product. Is the purchase planned or is it done on impulse? Items such as razor blades and chewing gum were found to be impulsive purchases. The sale of such items was stimulated by placing a variety of them in the

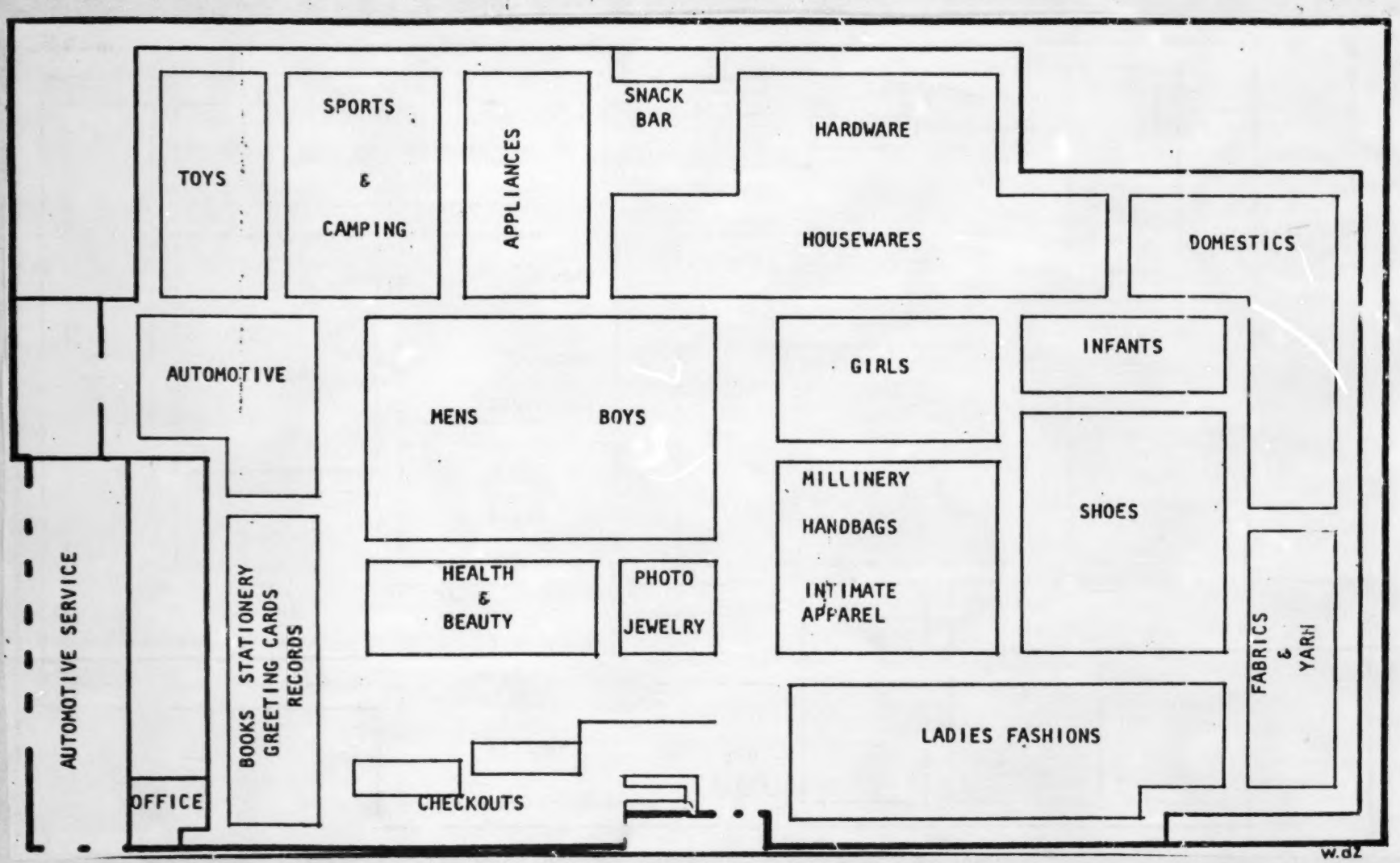
register aisles. As the customer waited in the check-out line, it was hoped that the customer would buy one or more of such items "on impulse". Items such as stereos and televisions were found to be planned purchases so they were placed in the rear of the store, the theory being that a person would have to travel through a variety of other departments to find stereos or television sets and thus might purchase additional items.

By using these three methods of (1) improving the placement of departments, (2) eliminating those products which were not profitable and expanding departments which were profitable, and (3) considering impulse versus planned purchases, Zayre was able to increase its profits.

Now look at Layout #2.

1. *To what extent did your layout agree with Zayre's?*

2. *What other methods might Zayre have considered to generate more profits from its existing stores?*


TOYS
SPORTS & CAMPING
APPLIANCES
SNACK BAR
HARDWARE
HOUSEWARES
DOMESTICS
AUTOMOTIVE
MENS
BOYS
GIRLS
INFANTS
MILLINERY
HANDBAGS
INTIMATE APPAREL
SHOES
HEALTH & BEAUTY
PHOTO
JEWELRY
FABRICS & YARN
LADIES FASHIONS
AUTOMOTIVE SERVICE
OFFICE
BOOKS STATIONERY GREETING CARDS RECORDS
CHECKOUTS
w.dz

Teacher's Note:

A. Educational Objectives: as a result of this case, students should be able to:

1. identify the realtionship of department store layout to its sales
2. identify and explain various aspects of merchandising
3. list methods used by department stores to increase sales
4. use statistics as an analytic tool

B. Procedure for teaching the case (instructions in case)

1. Hand out "The Problem" for students to read
2. Hand out Layout #1 and Key for students to complete
3. Hand out Table I and second copy of Layout #1 for students to complete
4. Hand out Layout #2 and "Zayre's Rationale..." and have students read rationale and examine layout
5. Hand out Layout #3 and read "Comment to Teachers" in this note

C. Additional questions for student development

1. What other ways might Zayre increase growth without horizontal expansions?
2. How can statistics be sued to review a business?
3. What other factors beside those mentioned in the case might affect a company's profit? List.
4. Do traditional department stores have layouts that are similar to Zayre's? What are the similarities and differences? Why?

D. Suggested student activities

1. Visit another retail department store and compare its layout to Zayre's.
2. Visit Zayre's experimental store in Waltham, Massachusetts to investigate merchandising techniques.
3. Read Zayre's magazine supplement in the Sunday newspaper and analyze which departments and items are emphasized. This should be done by using profitability as a basis of comparison.
4. Interview the manager of a retail department store about the methods of merchandising used in his store.

E. Glossary...

1. gross profit - the amount of money added on to the cost of an item to cover overhead, taxes, and profit

2. horizontal growth - expansion of a business by opening more outlets on the same model

3. impulse buying - the purchasing of items that the customer did not plan on buying before entering the store

4. merchandise mix - balancing the number of high turnover/low mark-up items with low turnover/high mark-up items throughout the store

5. net sales - total sales

6. planned buying - buying which was intended by the customer before entering the store

7. profit - money remaining after all expenses have been paid

8. turnover - the speed at which a product becomes a part of the inventory and is then sold

9. volume of sales - number of goods that are sold

F. ZAYRE'S PILOT STORE LAYOUT

As you can see by looking at the layout of Zayre's Pilot Store, it is unique. Invite student discussion on how this layout compares to the present Zayre store layout. Encourage students also to speculate about other merchandising techniques within departments that might be tried in a pilot Zayre store. Many other techniques are, in fact, being tried in the Zayre Pilot Store. These include displaying the full face of apparel rather than hanging it on its side on a rack, and angle shelving of items which allows them to be seen without customers having to bend. To appreciate the effect of these and other new methods of merchandising, a visit to the Zayre Pilot Store in Waltham, Massachusetts is suggested.

Layout #3

THE OUTER FASHION CIRCLE

1. Men
2. Boys
3. Girls
4. Infants
5. Shoes
6. Fabrics
7. Domestics
8. Sight/Sound
9. Records
10. Camera
11. Toys
12. Sports
13. Hardware
14. Auto

THE INNER FASHION CIRCLE

15. Sportswear
16. Hosiery
17. Lingerie
18. Corsetry
19. Accessories
20. Handbags
21. Homewares
22. Live plants
23. Stationery
24. Drugs
25. Cosmetics
26. Candy
27. Jewelry
28. Snack Stop

"THE CHIPS ARE IN YOUR HANDS"

Bradford Products, Inc. is a progressive company operating in the data processing industry. The company is headed by Weaver Owen, an experienced executive. Bradford Products is made up of two divisions: Groton and Mystic. The Groton Division brought in 86% of the total corporate sales volume last year. This percentage represented $20 million of the $24 million in sales. Noteworthy is the fact, that even with its modest volume, the Groton Division, headed by Anthony Phillips, holds the number two position industry-wide in its non-automated field of specialization.

The Groton Division produces and sells accessory products and systems for data processing, such as specialized filing, record keeping, and information-retrieval equipment. Demand for its type of products normally grows with the world-wide data processing industry. The major computer companies are not competitors, and, in fact, Mystic Division has a leadership position in its market. With demand currently strong, this division is well poised to benefit from recently introduced products. In addition, Mystic Division has probably the largest sales force in the data processing accessories industry (120 salespersons in 52 major cities nationwide) plus a computerized direct mail program providing accurate and current market statistics.

The Groton Division, the smaller unit in Bradford Products, manufactures equipment for visual control reference and retrieval of business records. Some of these systems are designed for standardized applications (inventory control, maintenance scheduling) and others for project management. This division is in the fields of manufacturing, wholesaling, retailing, and the professions with 90 independent distributors in the United States and foreign manufacturing and sales licensee.

This case was prepared by Thomas Barry (Dorchester High School, Boston), Carter B. Hart, Jr. (New Hampshire State Department of Education), John Sullivan (Bedford, Massachusetts, Public Schools), and Robert Sutton (Braintree, Massachusetts, Public Schools) under the supervision of the 1977 NU/FEI/BHELP Summer Social Studies Workshop faculty as a basis for class discussion rather than to illustrate either effective or ineffective handling of a particular situation.

Eight to ten years ago, Bradford Products, Inc. was able to earn 10-12 per cent before taxes. Currently, the corporation's overall earnings were 5.9 per cent (1975) and they have projected 7.0 per cent for 1976. Groton is not as profitable as its larger sister division.

"Tony, are we trying to beat a dead horse? This is the age of computers--the age of automation. We've had good success. We're number two in the field. But is it time to face the inevitable...the fact that Groton is being eaten up by the small business computer?"

"Mr. Owen, Groton is not ready for the glue factory! I believe we can still get some good mileage from the old mare before the new technology takes over."

Question: *Should the company expand the smaller Groton Division which appears to have matured or place emphasis in the new expected growth of the Mystic Division?*

"If anyone can find a market, you can Tony--the chips are in your hands! I'll check back next week to see how we're doing."

one week later...

"We have it, Mr. Owen! For seven years Groton has been selling a business management system to veterinarians. Out of a possible market of approximately 14,000 'vets.' Groton is being used by over 2,400. If we've been able to capture such a large proportion of that medical area, why not approach others? Doctors, dentists, etc. who also have need of our system. There's a market out there particularly in small clinics and solo practitioners---solo practitioners alone number 199,000.

Doctors have their pains too! Some of the biggest ones are (1) the almost endless paper work involved in insurance claims, (2) the need to maintain accurate patient billing and payment records, (3) the problems in filing and accessing charts, and (4) collecting money. In short, the whole record keeping, clerical, filing aspect of the modern practice presents the doctor with a case of file pollution and we have the antidote!"

Question: *Should the company expand the smaller Groton Division which appears to have matured or place emphasis in the expected growth of the Mystic Division?*

"It sounds good, Tony. The chips are in your hands. Develop a marketing scheme and let's go get 'em."

You have been called in by Tony Phillips as a marketing consultant. Information that has been established in Groton selling to veterinarians is that

a. most doctors are not trained to manage a practice (business)

BEST COPY AVAILABLE

b. most doctors employ someone to manage the clerical aspects of their practice
c. doctors in training (interns) don't have much time to think about the problems of managing a practice
d. there are approximately 199,000 office based doctors in the United States.

What sort of a sales program would you develop for Tony Phillips?

Physicians, Dentists, and Nurses

Item		1965	1970	1971	1972	1973
All physicians [1]	1,000	305	348	359	371	382
Doctors of medicine	1,000	292	334	345	357	366
Active M.D.'s	1,000	278	311	322	333	338
Non-Federal, active	1,000	255	282	293	306	312
Office based [2]	1,000	185	189	195	199	199
General practice [3]	percent	36	28	27	26	25
Full-time specialty	percent	64	72	73	74	75
Doctors of osteopathy	1,000	13	14	14	14	15
Medical schools [1]	number	85	107	110	115	114
Students	1,000	34.1	39.7	42.6	46.0	50.1
Graduates	1,000	7.8	8.8	9.4	10.0	11.0
Newly-licensed physicians [4]	1,000	8.9	11.0	12.3	14.5	16.7
Graduates, U.S. schools	1,000	7.5	8.0	7.9	7.8	9.3
Foreign-school graduates	1,000	1.5	3.0	4.3	6.7	7.4
Dentists, total	1,000	109	116	118	120	122
Active, non-Federal	1,000	86	96	97	98	101
Dental schools	number	49	53	53	52	56
Students	1,000	13.9	16.0	16.6	17.3	18.4
Graduates	1,000	3.2	3.7	3.8	4.0	4.2
Nurses, active registered	1,000	613	700	723	780	815
Rate per 100,000 population:						
Active M.D.'s		143	153	156	160	161
Office based, non-Federal [2]		96	93	94	96	95
Dentists, total		56	57	57	58	58
Active, non-Federal		45	47	47	47	48
Nurses		319	345	353	376	390

[1] Includes osteopathy. [2] Includes solo, partnership, group or other practice, and physicians in industry, insurance companies, health departments, laboratories, etc. [3] Includes no specialty reported or listed. [4] Source: American Medical Association.

U.S. Department of Commerce, Pocket Data Book USA 1976, (Washington, DC: Superintendent of Documents, GPO), p. 172.

Teacher's Note:

Objectives...

1. to identify the economic terminology used
2. to recognize the risk and reason in undertaking a new product
3. to distinguish the different variables in maketing a product
4. to understand the organization of the business concern

Questions...

1. What is the role of marketing in growth?
2. How do you define business success?
3. What are the characteristics of the computer industry which make growth different than other industries?
4. Why does a company use a marketing consultant?
5. How would you develop a marketing campaign for a company?

THE SHERATON CORPORATION
AND
H.R. 3744

On March 7, 1977, Howard P. James, chairman, president, and chief executive officer of the Sheraton Corporation, sent a letter to all general managers in the Sheraton Hotel chain concerning the current bill on the minimum wage before the House of Representatives, H.R. 3744. Mr. James suggested that the Sheraton general managers contact their respective legislators, the President of the United States, and other appropriate governmant officials concerning the impact that this bill would have on the hotel industry. This appeal by Mr. James was also supported by a national comapign mounted by the American Hotel and Motel Association and the National Restaurant Association.

An example of this appeal is the attached letter to President Carter sent by Robert J. Ford, general manager of the Sheraton-Columbus Hotel, March 16, 1977.

The concept of a "minimum wage" has been an integral part of the American wage system since the passage of the Fair Labor Standards Act of 1938. Wages, like most other things, are not a constant and vary from region to region, industry to industry, and this is particularly true of the hotel and restaurant industry.

This case was prepared by John Cawley, William Noone, Fred Sabini, and Harry Semonian, all of the Milton (Massachusetts) Public Schools, under the supervision of the 1977 NU/FEI/BHELP Summer Social Studies Workshop faculty as a basis for class discussion rather than to illustrate either effective or ineffective handling of a particular situation.

A Sheraton Hotel employs many people. Salary expenses comprise approximately 35 to 45 per cent of the total operating costs of a hotel facility making it highly "labor intensive". In a typical large convention hotel in the Northeast, base wages of employees who are working at an hourly rate, already exceed the minimum wage, therefore, new legislation raising the minimum wage would have little or no cost-increase impact.

Sheraton had multiple concerns with H.R. The two primary concerns, however, are the rising entry level wages which deter the hiring of low-skilled youth and minorities and the tip credit as indicated in Mr. Ford's letter. The tip credit is a practice which recognizes the fact that the overwhelming majority of tipped employees exceed the minimum wage; and therefore, permits the employer to establish the wage floor at 50% of the minimum wage. This helps to assure that tipped employees remain on an equivalent basis with non-tipped employees. It has the further effect that in calculating its payroll Sheraton pays social security taxes (Federal Contribution Insurance Act, FICA) based on the minimum wage after the tip credit in accordance with existing tax laws. This assures that Sheraton pays this tax only on Sheraton's portion of the employees' wage.

Elimination of the tip credit upsets the wage spread between tipped employees and other employees requiring in effect that all wages, not just those of the tipped employees, would have to be adjusted upward.

The elimination of the tip credit would, therefore, have the dramatic but not obvious effect of upsetting the total wage structure not only of the Sheraton Corporation but of the hotel and restaurant industry as well.

The State of California has recently passed a new minimum wage law which eliminated the tip credit. The National Restaurant Association published a report which studied the impact of this law on employment, inflation, patronage, and earnings. Of the larger restaurants surveyed, the NRA report found that 76 per cent experienced reductions in the work force, especially among the low skilled workers.

Sheraton-Columbus Hotel
SHERATON HOTELS & INNS, WORLDWIDE
50 NORTH THIRD STREET
COLUMBUS, OHIO 43215
TELEPHONE (614) 228-6060

EXECUTIVE OFFICE

March 16, 1977

The President
The White House
Washington, D.C.

Dear Mr. President:

I am writing this letter to voice opposition to the bill "Minimum Wage H.R. 3744."

Should this bill be enacted into law, it would mean an automatic 15.1% or $285,000/year increase in our total wages. In addition to this, there would be corresponding increases in benefits. This increase would definitely be inflationary and contribute to a return of double digit inflation that we experienced in 1975. In a period where the economy has returned to a livable inflationary rate, any legislation which would change this trend is a detriment to the country as a whole.

The 15.1% increase does not take into account the upgrading of wages that would be necessary for those employees not affected by the minimum wage increase. In order to maintain some wage differential in various job categories which require more skills than those at the minimum wage level some adjustments will be necessary. I can visualize that the 15.1% could turn into more like 25% after these adjustments are made.

It goes without saying that the hotel industry cannot absorb the proposed increase in the minimum wage and the elimination of the tip credit and will find it necessary to respond by increasing prices and reducing the labor force. A reduction in the labor force would mean a reduction of those employees who already make up the major portion of the unemployment roles; that is, the unskilled worker (and in most cases the youthful unskilled worker who has less seniority and must, therefore, be the first to be laid off). The country can ill afford adding to the unemployment ranks at this time.

DIAL 800-325-3535 TOLL-FREE FOR SHERATON RESERVATIONS WORLDWIDE

The elimination of the tip credit will undoubtedly change the American way. As I am sure you are aware, in Europe where service charges are included in the cost, it is still necessary to tip the employees to assure service. This will mean that the American public will be paying more; that is, they will still have to tip yet pay the increased prices that resulted in the hotel passing along the costs which would normally have been paid by the customer in the form of gratuities.

It would seem to me that tying the minimum rate t the average earnings in manufacturing is a double burden to those of us in non-manufacturing industries. We must negotiate employee compensation with the union that represents our employees, yet we would also be directly affected by union settlements in the manufacturing industry.

The enactment of this bill would give an unfair competitive advantage to those hotels and motor inns in Ohio that generate less than $250,000 a year in total revenue. These establishments are not covered by the federal minimum wage and, therefore, come under the state minimum wage law which is presently $1.90/hour.

In closing, I appeal to you to use your influence in defeating H.R. 3744.

Sincerely,

Robert J. Ford
General Manager

jd

Of the 820 people employed by the typical large No. East Convention Hotel (346 salaried, 474 hourly wage), 165 of the hourly wage personnel would come under the tip credit structure. The projected 1977 payroll for this typical hotel is approximately $2,500,000 with a 7½ per cent increase budgeted for 1978. Elimination of the tip credit would necessitate not only increasing the present base by 1.15 but would require bringing wages into respective with the current wages including tips. A waiter or bell captain who presently grosses $15,000 could have his base salary increased some three to four times. FICA contributions would also have to be increased. Sheraton estimates that H.R. 3744 could increase wage costs for tip credit employees in this convention facility by as much as 160 per cent.

An interesting aspect of this situation is the position of the worker's union. Local 26 of the Hotel, Restaurant, and Institutional Employees Union has been reluctant to take a definitive stand on the issue. One reason for the HRIE's reluctance is that its membership is very divided on this crucial issue. Employees, waiters and waitresses in particular, depend upon tips to survive. On the other hand, non-tip employees can only benefit by a raising of the minimum wage.

The elimination of the tip credit, or tipping, would also mean that the American public would have to re-evaluate its attitude towards the practice of tipping. Sheraton officials believe that a change in price philosophy might well result. The European practice of including the tip in the bill at a standard rate would probably be introduced. Sheraton believes that an advertising campaign would have to be used to educate the public and as a result the level of service might decline, at least in the short term.

If you were a member of the House of Representatives, how would you vote on H. R. 3744?

Teacher's Note:

Questions

1. How did the practice of tipping develop?
2. What is the history of the minimum wage concept?
3. Do you think that a business has a right to lobby for particular legislation?
4. How can the Large Convention Hotel reduce operating costs?
5. What jobs involve tipping?
6. Why do people gravitate to jobs where tipping is involved?
7. Do you like the tip?
8. What do you feel will be the net result of changes in the minimum wage law?
9. Do you feel that high quality service can be maintained without tipping?
10. How would you feel if you held a job that depended upon tips?

Activities

1. Field trip to local hotel
2. Mock congressional hearings on minimum wage law
3. Write a letter from the NRA to a congressman
4. As President Carter, answer Mr. Ford's letter
5. Survey parental attitudes towards tipping
6. Study practices of local businesses
7. Survey fellow students working in tip credit jobs

WHY SIMPLE SIMON HIT THE ROOF

Should Simple Simon
Seek a pieman
While going to the fair.

He'd now head for
A Johnson stand
"Tis Best!" he would declare.

HOWARD JOHNSON'S

Simple Simon was used for many years as the symbol of Howard Johnson's restaurants. The founder of this nation-wide chain selected Simple Simon in an attempt to attract family business. This nursery rhyme character not only appealed to children, family, and adults, but also tied in with a play on the food image.

The practice of not serving alcoholic beverages fitted in with the Simple Simon trademark. However, as new restaurants were opened in downtown and suburban areas, cocktail lounges were introduced to reflect changes in society.

In the mid-1960's, the Howard Johnson's label on ice cream, frozen foods, and other supermarket specialities was introduced. To enhance consumer recognition, marketing research was undertaken to evaluate the recognition strength of the original company logo by the public. It was apparent from this research that the original trademark was no longer appropriate. The question then was to what would the public identify with Howard Johnson's?

One very visible symbol was identified. The restaurants all had orange roofs. The company adopted the orange roofs as its new logo, feeling it was eye catching, clearly visible, and easily recognizable.

This case was prepared by Charles De Felippo and Kenneth Stevens of the Leominster (Massachusetts) Public Schools, Wilma Leonard and Edward Thomas of Martha's Vineyard (Massachusetts) Regional High School, and John Raccuia of the Cohasset (Massachusetts) Public Schools under the supervision of the 1977 NU/FEI/BHELP Summer Social Studies Workshop faculty as a basis for class discussion rather than to illustrate either effective or ineffective handling of a particular situation.

In testing the recognition of the new symbol, the name Howard Johnson's was blocked out, leaving only the orange roof. Compared with other industry symbols, such as the Bell Telephone, there was a 90 per cent recognition factor of the new symbol. The Howard Johnson's Company was developing a major motor lodge business by this time and the orange roof was useful to advertise the new lodges. A design firm was employed to consider a number of things including variations on the roof design. The design of the orange roof recommended by that firm is what finally became the company's new trademark.

In addition to the color, there is another aspect of the trademark that is distinctive. The lettering of the full name of Howard Johnson's was retained to blend the distinctive old with the new. Along the nation's highways some experimentation has been conducted using only very large H J letters under the orange roof on the signs at the restaurant entrances. New billboard requirements of 600 feet setback from the highway suggested the need for the large letters H J. Public reaction was negative. They identified clearly with the bright, visible orange roof. "H J" seemed to confuse many people into thinking it was another type of restaurant. There was also created an impersonal, big corporation image. Although the name is lengthy for advertising layouts, the company retained its full name on the new trademark. The roof and name together provided the company with a successful recognition symbol, necessitating little advertising.

Will Howard Johnson's profits continue on the strength of public recognition of the orange roof or will increased advertising be required?

If the profits of the Howard Johnson's Company began to decline, as marketing director what factors would you want to consider in turning profits around?

Historical Background of Howard Johnson Company

The Howard Johnson Company--largest full-service restaurant chain in the world--began in an old-fashioned patent medicine store in Wollaston, Massachusetts, in 1925.

The founder, Howard Deering Johnson, borrowed $500 to take over operation of the store. His dream was to build a business "with a product I could call my own."

The product was ice cream, which he began making in the basement of the store. By doubling the usual butterfat content and using only quality ingredients, he developed "a superior product"--the beginning of the famous "28 Flavors" that became his trademark.

The following summer, Johnson operated a stand on Wollaston Beach and later opened a restaurant in Quincy, Massachusetts. Later, to expand farther and faster, he negotiated with another local businessman who agreed to pay a fee and buy supplies from Johnson for the right to use his name on a restaurant.

Johnson's idea proved successful, and the chain of restaurants spread throughout New England, then south along the Atlantic seaboard to Florida. Later it moved westward, and today it extends from Maine to California.

Howard D. Johnson has the distinction of being the founder of the franchise system that continues today. The restaurants are either operated by the company or operated under a licensee agreement by independent owners. Johnson was also the first turnpike operator--opening on the Pennsylvania Turnpike in 1940. Today Howard Johnson's is the country's leading turnpike operator.

In 1954 the company opened the first of its coast-to-coast chain of motor lodges in Savannah, Georgia. From the one-story, 50-room property, which first displayed the Howard Johnson's trademark, the company has progressed to a blend of low-rise and high-rise units extending into 42 states, Canada and Puerto Rico in locations situated near airports, downtown and highway locations, as well as resort facilities.

In 1955 the company began to package its food products for sale to retail stores. Today Howard Johnson's canned and frozen grocery products--from clam chowder to entrees--are sold along with the famous "28 Flavors" of ice cream in supermarkets and grocery stores in selected marketing areas.

Another division of the company is a chain of steak houses named Red Coach Grills. These are full-service restaurants with atmospheres reminiscent of early Colonial taverns featuring red leather upholstered captains chairs, pioneer oak tables, oak paneled walls and beams, coach lanterns and decorated with old tavern signs and pewter. Red Coach Grill is famous for prime ribs of beef, steaks, lobsters and quality liquors.

The newest innovation is a chain of informal dining restaurants called Ground Round. These limited units with family-priced menus have a turn-of-the century atmosphere. Nostaglia flows through Tiffany-type lamp shades, old movie posters and antique artifacts. Peanuts and popcorn on the table, clowns for the children on Sunday afternoons, old movies and night-time live entertainment have earned the reputation of a "fun place to eat and drink." Conceptualized in 1969, there are now 92 Ground Rounds (August 1977) in 18 states. Expansion plans have a goal of 150 Ground Rounds by 1978.

The Company became publicly owned in 1961 and the stock was accepted for trading on the New York Stock Exchange the following year.

Howard Brennan Johnson, son of the founder, was elected President in 1958 and today is Chairman of the Board and President. Howard D. Johnson, who lived to see his dream come true, died in 1972.

Teacher's Note

A. Activities prior to the use of the case

1. Introduce function of a logo

2. Use transparencies of various trademarks for identification by students.

B. Grade Level - used in connection with unit on advertising, 5-12.

C. Objectives

1. Students should be able to verbalize the meaning of the following terms:

a. billboards

b. corporation

c. identification

d. logo

e. marketing

f. marketing survey

g. symbols

h. trademark

i. visibility

j. trade off

2. Students will be able to develop the relationships between marketing and advertising and profits.

D. Suggested activities for students

1. Develop a logo for a local business

2. Develop a new logo for Howard Johnson's

3. Collect samples of logos from other media

4. Develop historical background to use of logos, including family coats-of-arms

5. Gather information on other successful products that do not advertise

FILENE'S

FLEXIBILITY - FIRST AND FOREMOST

Background

Filene's, a large Boston retail department store, was first established in 1852. It became a division of Federated Department Stores, Inc. in 1930. Since joining Federated, Filene's has opened eleven stores including five new stores beginning in 1968. The stores are located in Massachusetts (10), Rhode Island (1), and New Hampshire (1). Although it carries some household accessories, Filene's merchandise includes apparel and accessories for all the family.

Situation

In August, 1976, a management team meeting was held at Filene's Department Store in Boston. Imagine that you are the President of the store presiding at this meeting. It is your role to listen to the ideas presented at the meeting and to determine whether or not they should be implemented.

Those present at this meeting are (in order of involvement):

Sheila Avery - vice president, general merchandising
Judy Jones - vice president, sales promotion
Robert Delaney - vice president, general merchandising
Eric Harris - vice president, personnel & labor relations
James Castle - vice president, finance
Alan Lewis - vice president, general merchandising

This case was prepared by Barbara DeMarneffe (Cambridge, Massachusetts, Chamber of Commerce), Lawrence Faretta and Reginald Tardif (both of the Georgetown, Massachusetts, Public Schools), and Christopher Lane (The English High School, Boston, Massachusetts) under the supervision of the 1977 NU/FEI/BHELP Summer Social Studies Workshop faculty as a basis for class discussion rather than to illustrate either effective or ineffective handling of a particular situation.

Case

The three vice presidents for general merchandising each speak in turn:

Sheila Avery: *"One of my divisions has recently purchased a number of new clothing items (men's overcoats and suits, women's outercoats, pea jackets, tie front pants coats, and toggle button coats), at significant savings, from one of our major wholesale outlets. These are all the latest winter styles introduced on the New York market.*

Judy Jones: *"Why don't we have a sale? This is a terrific opportunity because of the unusual wholesale saving."*

Robert Delaney: *"A sale at this time would be highly unorthodox. It is only the beginning of the winter season and top retail prices can and should be expected. Having a sale now could put us on thin ice. All retail stores, including ours, have always had very early pre-season sales. Otherwise, we have always waited until the end of the season to offer these items for sale--not certainly in the middle of September!"*

Judy Jones: *"That's just the point. What a perfect chance to capture a larger share of the market from our competitors! This will be completely unexpected. It never hurts to be innovative."*

Eric Harris: *"That may be true, Miss Jones. However, don't forget that with a sale we obviously have to expect more people in our store and you know this is going to mean more work for our employees, adding more sales people or possibly overtime."*

Judy Jones: *"Since when did we ever avoid customers. As a matter of fact, I have been considering a very innovative sales promotion over the past several days. Why don't we try a deferred payment plan whereby customers can purchase in September and pay after the Christmas season--let's say in January or February."*

James Castle: *"I have no reservations about the concept of a sale. However, I see a real problem with the idea of a deferred payment plan. That would mean massive amounts of paper work. Sales for these special items would have to be extracted from the regular sales slips by the personnel in my department. The finance and control areas are very busy as it is."*

Alan Lewis: *"Yes, but being busy is a sign of profit in this business. And that's what it's all about! I think Miss Jone's idea is tremendous! Just think, we'll pull the rug out from under our competitors. We'll get customers into the store at a normally slow time."*

James Castle: "You're right there. As a matter of fact, I suppose it would give us the opportunity to entice people into opening new accounts. Certainly these new accounts would pay off when the Christmas rush begins."

Judy Jones: "Don't forget another important fact. We have items for both men and women. Women will more easily be able to get their husbands to the store when the men see the possibility of a bargain for themselves. And beyond that, you all know how women like to buy accessories to wear with new clothing of this sort."

Alan Lewis: "You're exactly right, Miss Jones. And we all line in a society where people love to 'fly now and pay later.' Why people could be wearing their new clothes months without thinking about paying for them."

James Castle: "Yes, but imagine the problems that could come up as a result of people with bad credit. We'd have to have specially assigned employees from our Credit Department sitting in each coat department to help new customers open new charge accounts. They'd also have to work out ways to try and make on-the-spot decisions as to whether the people were good credit risks or not. We wouldn't be able to recognize questionable accounts for months. We wouldn't know bad debts until the bills are sent out and that wouldn't be until January or February. I'd also like to bring out the fact that it would cost a lot to carry the credit of these people for so many months. Don't forget the money we paid the wholesalers for the merchandise would be bringing no profit. I wonder if the revenues from the sale would cover this cost and make a profit. And what about the cost of advertising? I certainly have mixed feelings about this sale?"

Judy Jones: "I'm really confident that this sale would more than pay for itself--not to mention the new accounts that we would pick up. And any advertising expenses would more than pay for themselves."

Sheila Avery: "Just what kind of advertising do you propose we would use, Miss Jones?"

James Castle: "Excuse me, but I find it very difficult to believe that a venture as risky as you propose can possibly be profitable, particularly considering the high cost of advertising. If this sale is held and is a failure, just think of the advertising money we will have poured down the drain. If the weather is cold, we will sell lots of coats, anyway, at the regular markup!"

Judy Jones: "Well, I have carefully considered all our advertising options. There are so many different ways in which we could approach this sale promotionally. Some would be more

expensive than others and some would reach more people than others. We need to think of several things. Who are the people we want to attract as buyers? For this sales, I believe that we would bring in men and women 20 years and up. I would suggest that we utilize our usual channels of communication via newspapers, radio, TV as well do a direct mailing to our charge customers. This is not a major sale, so we don't want to make a 100 per cent splash nor spend too much advertising money."

Alan Lewis: *"Well, we do have to consider how much to spend in order to attract enough business to make the effort worthwhile. Do you have any advertising figures, Miss Jones?"*

Judy Jones: *"As you may imagine, TV advertising is the most expensive--$20,000 per Sunday. Sunday newspapers will cost $8,000 for full page ads in both papers. Drive time promotion spots on radio, for the three adult stations (WBZ, WEEI, WHDH) would cost about $10,000 for two weeks prior coverage. We might also consider a fashion show. But our basic question is what is the larger number of people we can reach for the least amount of money spent."*

Robert Dalaney: *"These points certainly have to be resolved. I have a strong feeling we would be biting off more than we can chew--an in this period of stiff competition that could be disastrous. On the other hand, the store needs to attract more customers and increase its share of the clothing business in the city."*

Alan Lewis: *"Well, I guess that the final decision on this sale rests with the president!"*

WHAT DO YOU THINK, MR. PRESIDENT?

If you decide to conduct the sale, what kind of advertising would you use? Why?

If you decide not to conduct the sale, defend your de. :on.

NOTE: This case was developed from information provided by the Filene's management, and concerns an actual sale situation. The Material is written in a manner to facilitate classroom discussion (role-playing).

Teacher's Note:

Theme--How to enlarge a business in a time of increased competition.

Overview-- this case presents familiar material. It involves the question of whether or not to hold a unique deferred-payment sale in the off-season. It presents the ideas, pro and con, and gives the students the opportunity to discuss these ideas in straight classroom discussion or in a role-playing situation.

The ideas the students will be talking about are marketing, advertising, and finance. They will be covering the concepts of risk taking, the process of group decision making, share of market, and others.

Prior to reading the case, a review of the terms below is suggested to facilitate comprehension and discussion.

credit
regular budget accounts
marketing
capital
retailing
stock
deferred payment
decision making
promotion
finance
disposable income
profit
risk taking
holding company
flexibility
charge accounts
human relations
group dynamics
cash flow
market
competition
corporation
annual report
markup
merchandise
innovation
wholesale
drive time

Teacher Preparation--

suggestions...1. obtain an annual report from Federated
2. make a glossary handout for students to do as homework.
3. invite a store executive to speak to the class
4. have students prepare questions for interview in #3
5. acquire charge account forms and checks to have students fill out

Student Preparation--

1. bring retail ads to class
2. visit retail store and interview member of management team
3. develop advertising campaing for an imaginary sale
4. run mock sale in classroom

NOTE: Filene's did undertake this sale. Although no hard figures are available to outsiders (company policy), the case team was told that the sale was highly successful, so successful they will do it again. The advertising program used was a combination of Sunday newspapers, drive time radio, and "point-of-sale" advertising at all eleven Filene's.